

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

MARION, HOWELL, OCEOLA & GENOA SEWER
& WATER AUTHORITY

REPORT ON AUDIT OF
FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED SEPTEMBER 30, 2007

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY

SEWER & WATER AUTHORITY BOARD

Chairman - Gary McCririe
Vice-Chairman - Robert Hanvey
Treasurer - Robin Hunt
Secretary - William Bamber
Member - Maureen Heikkinen
Member - James Phelan
Member - Lance Schuhmacher
Member - Daniel Lowe

UTILITY DIRECTOR

Dr. Gregory Tatara

SEWER & WATER AUTHORITY AUDITORS

Pfeffer, Hanniford & Palka
Certified Public Accountants

TABLE OF CONTENTS

	<u>PAGE NUMBER</u>
INDEPENDENT AUDITORS' REPORT	
MANAGEMENT DISCUSSION AND ANALYSIS	6
FINANCIAL STATEMENTS	
Statement of Net Assets	10
Statement of Revenues, Expenses and Changes in Net Assets	11
Statement of Cash Flows - Direct Method	12
NOTES TO FINANCIAL STATEMENTS	14
SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenses and Transfers - budget to actual - operations only	21



PFEFFER ■ HANNIFORD ■ PALKA
Certified Public Accountants

John M. Pfeffer, C.P.A.
Patrick M. Hanniford, C.P.A.
Kenneth J. Palka, C.P.A.

Members:
AICPA Private Practice Companies Section
MACPA

225 E. Grand River - Suite 104
Brighton, Michigan 48116-1575
(810) 229-5550
FAX (810) 229-5578

December 15, 2007

Marion, Howell, Oceola & Genoa
Sewer & Water Authority
2911 Dorr Road
Brighton, Michigan 48116

INDEPENDENT AUDITORS' REPORT

Honorable Board of Trustees:

We have audited the accompanying financial statements of the Marion, Howell, Oceola & Genoa Sewer & Water Authority as of and for the year ended September 30, 2007. These financial statements are the responsibility of the Authority Board. Our responsibility is to express an opinion on these financial statements based on the audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marion, Howell, Oceola & Genoa Sewer & Water Authority, as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 6 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marion, Howell, Oceola & Genoa Sewer & Water Authority's basic financial statements. The supplementary information presented for purposes of additional analysis is not a required part of the basic financial statements. The supplementary information has not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on them.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants

MANAGEMENT
DISCUSSION
AND
ANALYSIS

Management Discussion and Analysis September 30, 2007

Within this section of the Marion, Howell, Ocala & Genoa Sewer & Water Authority financial report, the Authority's management is providing a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2007. This narrative discusses and analyzes the activity within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Authority's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Authority's financial statements. The financial statements include all the statements required by the Governmental Accounting Standards Board and the notes to the financial statements. The Authority also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The Authority's annual reports include two Authority-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these statements is the Statement of Net Assets. This is the Authority-wide statement of position presenting information that includes all the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority may extend to various non-financial factors as well.

The second government-wide statement is the Statement of Revenues, Expenses and Changes in Net Assets which reports how the Authority's net assets changed during the current fiscal year. The design of this statement is to show the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

The Authority's financial reporting includes all the funds of the Authority (primary government) and, additionally, organizations for which the Authority is accountable (component units). Since the Authority's sole purpose is to operate and manage a water system, only one fund is maintained. Thus, there are no fund financial statements prepared by the Authority.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements.

Other information

In addition to the financial statements and accompanying notes, this report also presents certain supplementary information. The supplementary information includes a budget to actual reconciliation for current year Authority operations.

Financial Analysis of the Authority as a Whole

The Authority's net assets at the end of the fiscal year were \$46,104,147. This is a \$2,742,829 increase over last year's net assets of \$43,361,318.

The following tables provide a summary of the Authority's financial activities and changes in net assets:

Summary of Net Assets			
	<u>9/30/2007</u>	<u>9/30/2006</u>	<u>Increase (Decrease)</u>
ASSETS			
Current and other assets	\$ 1,627,265	\$ 2,283,781	\$ (656,516)
Restricted/designated assets	1,377,057	1,615,495	(238,438)
Capital assets, net	<u>43,474,064</u>	<u>39,907,177</u>	<u>3,566,887</u>
Total assets	<u>46,478,386</u>	<u>43,806,453</u>	<u>2,671,933</u>
LIABILITIES			
Accounts payable	125,991	127,431	(1,440)
Due to others (from restricted/designated assets)	<u>248,248</u>	<u>317,704</u>	<u>(69,456)</u>
Total liabilities	<u>374,239</u>	<u>445,135</u>	<u>(70,896)</u>
NET ASSETS			
Invested in capital assets	43,474,064	39,907,177	3,566,887
Unrestricted	<u>2,630,083</u>	<u>3,454,141</u>	<u>(824,058)</u>
Total net assets	<u>\$ 46,104,147</u>	<u>\$ 43,361,318</u>	<u>\$ 2,742,829</u>

Summary of Changes in Net Assets

	Year Ended 9/30/2007	Year Ended 9/30/2006	Increase (Decrease)
Operating revenues	\$ 2,103,525	\$ 2,024,767	\$ 78,758
Operating expenses			
System operations	2,540,186	2,034,432	505,754
Administrative	298,872	221,697	77,175
Total operating expenses	2,839,058	2,256,129	582,929
Operating (loss)	(735,533)	(231,362)	(504,171)
Non-operating revenues, net	101,342	97,303	4,039
Capital contributions	3,377,020	6,554,313	(3,177,293)
Net income	2,742,829	6,420,254	(3,677,425)
Beginning net assets	43,361,318	36,941,064	6,420,254
Ending net assets	\$ 46,104,147	\$ 43,361,318	\$ 2,742,829

Revenues from operations increased by 5%, as usage increased due to a more than usual hot-dry summer and a rate increase of \$0.05 per 1,000 gallons. Operating expenses increased slightly over the prior year due to depreciation expense, increased cost of chemicals, ongoing system repairs, and meter replacements.

Contributions and additions to the water system by developers came mostly from developments in Howell Township.

Net income decreased from \$6,420,254 for the year ended September 30, 2006 to \$2,742,829 for the year ended September 30, 2007 mostly due to the capital contributions by the Townships which were mostly made in the year ending September 30, 2006 for the plant expansion.

Capital and Debt Administration

The Authority itself does not have any long-term debt. However, the individual member townships have issued debt over the years to finance the construction of the water treatment plant, various pumps and water lines in the respective townships. The townships are responsible for paying their own debt.

The member townships and various developers directly spent \$3,397,020 for additions to the system (water lines, pumps, etc.). This amount is recorded as capital contributions - additions to system income in the statement of revenues and expenses since the infrastructure is added to the Authority's capital assets and will be depreciated over future years. In addition, the Authority paid out \$1,366,148 to complete the plant expansion project, complete improvements to the system in Marion Township and paint the interior of the plant.

Economic Factors and Next Year's Goals

The Authority's financial outlook continues to remain relatively strong. The population in the service area is expected to grow with new users being regularly added to the system. The growth will however, more than likely slow down compared to prior years with the downturn in the economy.

Contacting the Authority's Financial Management

This report is designed to provide a general overview of the Authority's financial position and comply with finance-related regulations. If you have further questions about this report or request additional information, please contact the Authority at 2911 Dorr Road, Brighton, Michigan, 48116.

FINANCIAL
STATEMENTS

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007

ASSETS

CURRENT ASSETS

Cash	\$ 589,074	
Accounts receivable - water operations	981,130	
Accounts receivable - Genoa Township	8,111	
Due from other governments	30,200	
Inventory	<u>18,750</u>	
Total current assets		\$ 1,627,265

RESTRICTED/DESIGNATED ASSETS

Cash - expansion	4,766	
Cash - equipment replacement	963,736	
Cash - Howell Township water tower	193,803	
Cash - escrows	<u>214,752</u>	
Total restricted/designated assets		1,377,057

CAPITAL ASSETS

Land	328,982	
Water system	49,352,106	
Equipment	<u>135,595</u>	
	49,816,683	
Less accumulated depreciation	<u>(7,329,195)</u>	
Net property, plant and equipment		42,487,488

CONSTRUCTION IN PROGRESS

		<u>986,576</u>
Total assets		<u>46,478,386</u>

LIABILITIES

CURRENT LIABILITIES (from unrestricted assets)

Accounts payable - water operations (includes \$35,292 due to related parties)		125,991
--	--	---------

CURRENT LIABILITIES (from restricted/designated assets)

Due to others - escrows	210,055	
Due to other water and sewer districts	<u>38,193</u>	
Total current liabilities (from restricted/designated assets)		<u>248,248</u>
Total current liabilities		<u>374,239</u>

NET ASSETS

NET ASSETS

Invested in capital assets, net of related debt	43,474,064	
Unrestricted	<u>2,630,083</u>	
Total net assets		<u>\$ 46,104,147</u>

The accompanying notes are an integral part of these financial statements

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

OPERATING REVENUES		
Billings - operations	\$ 2,095,414	
Meter sales - net	<u>8,111</u>	
Total operating revenues		<u>\$ 2,103,525</u>
OPERATING EXPENSES		
Labor - contract	563,935	
Licenses, fees, permits	6,457	
Chemicals and supplies	127,699	
Repairs and maintenance	278,097	
Inspections and testing	8,908	
Utilities	239,450	
Telephone	25,741	
Meters and supplies for meters	138,406	
Miss digs	1,931	
Depreciation	1,080,235	
Small equipment	3,231	
Sludge removal	<u>66,096</u>	
Total operating expenses		2,540,186
ADMINISTRATION EXPENSES		
Director fees	38,481	
Office expenses	7,115	
Per diem - board members	12,625	
Bookkeeping	7,020	
Accounting and audit fees	21,475	
Insurance	33,232	
Administration - billing preparation	89,798	
Administration - trailer occupancy	10,051	
Consulting and engineering	<u>79,075</u>	
Total administration expenses		<u>298,872</u>
Total expenses		<u>2,839,058</u>
OPERATING (LOSS)		(735,533)
NON-OPERATING REVENUES		
Interest income	70,672	
Rental income	18,630	
Other income	<u>12,040</u>	
Total non-operating revenue		101,342
CAPITAL CONTRIBUTIONS (DISTRIBUTIONS)		
Member (distributions) - cash	(20,000)	
Member contributions - additions to system	2,976,720	
Developer contributions - additions to system	<u>420,300</u>	
Total capital contributions		<u>3,377,020</u>
Net income		2,742,829
NET ASSETS, OCTOBER 1, 2006		<u>43,361,318</u>
NET ASSETS, SEPTEMBER 30, 2007		<u><u>\$ 46,104,147</u></u>

The accompanying notes are an integral part of these financial statements

PFEFFER, HANNIFORD & PALKA

Certified Public Accountants

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
STATEMENT OF CASH FLOWS - DIRECT METHOD
FOR THE YEAR ENDED SEPTEMBER 30, 2007

CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES

Receipts from customers	\$ 1,999,725
Receipts from (payments to) developers, others (net)	(58,533)
Payments to vendors	(1,795,637)
Other receipts	<u>12,040</u>

Net cash from operating activities \$ 157,595

CASH FLOWS FROM (USED IN) CAPITAL AND RELATED
FINANCING ACTIVITIES

Member (distributions)	(20,000)
Acquisition of capital assets/construction	<u>(1,250,102)</u>

Net cash (used in) capital and related financing activities (1,270,102)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	70,672
Rental income	<u>18,630</u>

Net cash from investing activities 89,302

(Decrease) in cash (1,023,205)

CASH AT OCTOBER 1, 2006 2,989,336

CASH AT SEPTEMBER 30, 2007 \$ 1,966,131

RECONCILIATION OF OPERATING (LOSS) TO NET CASH
FROM (USED IN) OPERATING ACTIVITIES

Operating (loss)	\$ (735,533)
Adjustments to reconcile operating (loss) to net cash from (used in) operating activities	
Other income	12,040
Depreciation expense	1,080,235
Changes in assets and liabilities	
Receivables, net	(103,800)
Accounts payables, net	(1,440)
Prepaid expenses	5,749
Due to others, net	<u>(99,656)</u>

Net cash from operating activities \$ 157,595

NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES

System contributions from member townships	\$ 2,976,720
System contributions from developers	<u>420,300</u>

Total non-cash contributions \$ 3,397,020

The accompanying notes are an integral part of these financial statements

NOTES
TO
FINANCIAL
STATEMENTS

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Marion, Howell and Oceola Sewer & Water Authority was incorporated on February 28, 1994, under Act No. 233, Public Acts of Michigan, 1955 as amended. On March 20, 1996 the articles of incorporation were amended to add Genoa Township to the Authority. The four incorporating municipal entities are Marion, Howell, Oceola and Genoa Townships. The purpose of the Authority is to acquire, own, improve, enlarge, extend, operate, maintain, manage and administer sewage disposal systems, water supply systems, or both.

The construction of a water system was completed in December of 1997. Thus, the Marion, Howell, Oceola and Genoa Sewer & Water Authority (MHOG) began operations in January of 1998.

The financing of the water system was done mostly by the sale of contract bonds which are retired through special assessments by the various townships through the Livingston County Department of Public Works. There were several construction funds set-up to administer the disbursements of funds to pay for the construction at the Livingston County Department of Public Works. Disbursements of funds have also been paid out of various funds maintained by the various townships for construction of the system.

The Authority board is composed of two voting representatives from each township. Each representative serves a one year term. The four townships also appoint an alternate representative or representatives who attend meetings in the absence of the representative appointed by the alternate's respective township.

The accounts of the Authority are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Authority's assets, liabilities, net assets, revenues, and expenses. Enterprise funds account for activities:

1. that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or
2. that are required by laws or regulations that the activity's costs of providing service, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar reviews; or
3. that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The financial activities of the Authority are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with its operations are included on the statement of net assets; revenues are recorded when earned, and expenses are recorded when liabilities are incurred.

The Authority follows all pronouncements of the Governmental Accounting Standards Board and has elected not to follow the Financial Accounting Standards Board pronouncements after November 30, 1989.

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

C. CASH AND CASH EQUIVALENTS

The Authority considers its deposits and restricted deposits and investments held with maturities of three months or less to be cash equivalents.

D. INVENTORY

Inventory consists of meters held for sale to customers and are stated at cost. Materials and supplies are not included in inventory, but rather expensed as incurred.

E. CAPITAL ASSETS

Capital assets are stated at cost. Depreciation and amortization are computed using the straight-line method based on the estimated useful lives of the related assets, which range from 5 to 10 years for equipment and 5 to 40 years for buildings, structures, and improvements.

F. CONSTRUCTION-IN-PROGRESS

The costs of acquisition and construction of major plant and equipment is recorded as construction-in-progress. As facilities are accepted by the Authority and become operative, they are transferred to the facilities and improvements or machinery and equipment accounts and depreciated in accordance with the Authority's depreciation policies. Costs of construction projects that are discontinued are recorded as expense in the year in which the decision is made to discontinue such projects.

G. CAPITALIZATION OF INTEREST

A portion of the interest cost incurred on capital projects is capitalized on assets that require a period of time for construction or to otherwise prepare them for their intended use. Such amounts are amortized over the useful lives of the assets.

H. PREMIUM AND ISSUANCE COSTS

Bond discount, premium, and issuance costs are amortized over the term of the related bonds. No such bond discount/premiums or issuance costs were outstanding or issued during the year ended September 30, 2007.

I. REVENUES AND EXPENSES

Revenues and expenses are distinguished between operating and non-operating items. Operating revenues generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for water. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

J. CAPITAL CONTRIBUTIONS

Cash and capital assets are contributed to the Authority from developers, member municipalities, or other external parties. The value of property contributed to the Authority is reported as revenue on the Statement of Revenues, Expenses and Changes in Net Assets.

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

NOTE 2 - MANAGEMENT'S ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

Michigan Compiled Laws Section 129.91, authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers; acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all of the investments mentioned in the proceeding paragraph.

The Authority's deposits are exposed to various risks as explained in greater detail to follow:

Custodial Credit Risk

The Authority's custodial credit risk for deposits is the risk that in the event of a financial institution failure, the Authority's deposits may not be returned to the Authority.

As of September 30, 2007, deposits in banks totaled \$1,967,241 which was exposed to custodial credit risk as follows:

Insured by FDIC	\$ 100,000
Uninsured and Uncollateralized	<u>1,867,241</u>
	<u><u>\$ 1,967,241</u></u>

The Authority's investment policy does not address this risk.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable consist of regular quarterly billings and penalties. Each year, as of September 30, accounts receivable that are over 90 days old are placed on the tax roll at the applicable township. As of September 30, 2007, \$93,731 of the outstanding \$981,130 accounts receivable went on the tax roll for collection. The Authority will receive the \$93,731 by March of 2008 through the tax collection process. The remaining accounts receivable of \$887,399 (\$981,130 - \$93,731) were under 90 days old as of September 30, 2007. As a result, an allowance for doubtful accounts is not necessary.

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

The following is a summary of changes in property, plant and equipment:

	Balance 10/1/2006	Additions	Deletions	Balance 9/30/2007
Land	\$ 328,982	\$	\$	\$ 328,982
Water system	35,850,881	13,501,225		49,352,106
Equipment	130,092	5,503		135,595
Total cost	36,309,955	13,506,728		49,816,683
Accumulated depreciaion	6,248,960	1,080,235		7,329,195
Net property, plant and equipment	<u>\$ 30,060,995</u>	<u>\$ 12,426,493</u>	<u>\$</u>	<u>\$ 42,487,488</u>
Construction in progress	<u>\$ 9,846,182</u>	<u>\$ 1,366,148</u>	<u>\$ 10,225,754</u>	<u>\$ 986,576</u>

Depreciation related to the water system and equipment is recorded as depreciation expense on the statement of revenues and expenses. Depreciation is recorded on the straight-line basis over the estimated useful life of the asset which is as follows:

Water system - plant and distribution system	5 to 40 years
Equipment	5 to 10 years

NOTE 6 - STATEMENT OF CASH FLOWS

Pursuant to Governmental Accounting Standards Board (GASB) statement number 9, a statement of cash flows is presented. The purpose of the statement of cash flows is to explain the change in cash and cash equivalents during the year.

Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less. The direct method was utilized to present cash flows from operations. The following is a summary of beginning and ending cash and cash equivalents:

	Beginning Balance 10/1/06	Ending Balance 9/30/07
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,373,841	\$ 589,074
RESTRICTED/DESIGNATED ASSETS		
Cash and cash equivalents	1,615,495	1,377,057
Total cash and cash equivalents	<u>\$ 2,989,336</u>	<u>\$ 1,966,131</u>

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

NOTE 7 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 8 - SEGMENT INFORMATION

Selected financial information is as follows:

Operating revenue	\$	2,103,525
Depreciation		1,080,235
Total assets		46,478,386
Total net assets		46,104,147
Net income		2,742,829

NOTE 9 - RELATED PARTY TRANSACTIONS

Genoa Township, an Authority member, performs billing, collection and management services for the Authority. During the year ended September 30, 2007 the total cost incurred for these services amounted to \$128,279. As of September 30, 2007 the Authority owed Genoa Township \$35,292.

NOTE 10 - CONCENTRATIONS

The Authority pays Severn Trent for system operation services. The cost of such services amounted to approximately \$563,935 for the year ended September 30, 2007 and is included as an operating expense in the Statement of Revenues, Expenses and Changes in Net Assets.

NOTE 11 - BUDGET INFORMATION

The Authority adopts an annual budget for operations of the water system prior to the fiscal year. The budget is amended from time to time to reflect economic reality.

The Authority excludes from the annual operating budget such items as:

- Depreciation
- Contributions/deposits into reserve cash accounts
- Expenditures from reserve cash accounts
- Interest income earned on reserve fund deposits

The Authority includes in the annual operating budget such items as:

- Major capital asset purchases from its Operations and Maintenance cash account
- Transfers to reserves from Operations and Maintenance cash account

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

NOTE 11 - BUDGET INFORMATION - continued

The following schedule is a reconciliation between the Statement of Revenues, Expenses and Changes in Net Assets (GAAP) and the Schedule of Revenues, Expenses and Transfers - Budget to Actual (Non-GAAP, supplementary information).

Per statement of Revenues, Expenses and Changes in Net Assets		
Net income		\$ 2,742,829
Reconciling items		
Additions		
Depreciation expense	\$ 1,080,235	
Abandon project cost in progress in prior year	13,560	
Refunds of member contributions	20,000	
Repairs paid by reserve funds	<u>2,203</u>	
Total additions		1,115,998
Deductions		
Transfers to reserves	(280,000)	
Capital contributions	(3,397,020)	
Capital purchases from Operations and Maintenance	(856,470)	
Interest income-reserves	(35,374)	
Tower rent receipts	<u>(18,630)</u>	
Total deductions		<u>(4,587,494)</u>
Net revenues (under) expenses and transfers per budget to actual report		<u>\$ (728,667)</u>

SUPPLEMENTARY
INFORMATION

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
SCHEDULE OF REVENUES, EXPENSES AND TRANSFERS - BUDGET TO ACTUAL - OPERATIONS ONLY
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Final Budget for the Year Ending 9/30/2007	Actual for the Year Ending 9/30/2007	Variance Favorable (Unfavorable)
REVENUES			
Billings	\$ 2,030,000	\$ 2,095,414	\$ 65,414
Income - other	5,000	11,939	6,939
Interest income	36,000	35,298	(702)
Meter sales	10,000	8,111	(1,889)
Total revenues	2,081,000	2,150,762	69,762
EXPENSES			
Accounting/audit fees	22,000	21,475	525
Admin - billing preparation	95,000	89,798	5,202
Admin - trailer space	10,100	10,051	49
Bookkeeping fees	7,020	7,020	
Capital projects - other	5,000	8,734	(3,734)
Chemicals	100,000	115,550	(15,550)
Director's fees	36,000	38,481	(2,481)
Engineering - separate projects	50,000	47,402	2,598
Engineering - general	20,000	18,111	1,889
Insurance	40,000	33,232	6,768
Lab testing	8,000	8,908	(908)
Labor - fixed	570,000	563,935	6,065
Legal fees	1,500		1,500
Licenses, fees, permits	7,000	6,457	543
Lime sludge removal	70,000	66,096	3,904
Miss Dig expenses	1,500	1,931	(431)
MXU program	150,000	138,406	11,594
Office expenses & publishing	9,000	7,115	1,885
Peavy road	475,000	494,836	(19,836)
Per diem board expenses	13,000	12,625	375
R & M - 3 booster stations	10,000	19,392	(9,392)
R & M - buildings	2,000	998	1,002
R & M - buildings - painting inside	300,000	320,195	(20,195)
R & M - towers	20,000	13,052	6,948
R & M - generators	15,000	9,625	5,375
R & M - grounds	23,000	17,338	5,662
R & M - hydrants	35,000	26,862	8,138
R & M - other	25,000	21,894	3,106
R & M - plant equipment	35,000	45,508	(10,508)
R & M - snow plow/lawn maintenance	15,000	15,800	(800)
R & M - watermain	110,000	141,262	(31,262)
Telephone	25,000	25,741	(741)
Tools/supplies	13,000	12,149	851
Trans - out capital improvement	100,000	100,000	
Trans - out capital reserves	180,000	180,000	
Utilities - electric	178,000	199,109	(21,109)
Utilities - gas	25,000	17,913	7,087
Utilities - other (Marion sewer)	22,500	22,428	72
Parker HS - install pressure tank	12,500		12,500
Total expenses	2,836,120	2,879,429	(43,309)
Net revenues/expenses	(755,120)	(728,667)	26,453
Beginning fund balance - O & M	2,156,350	2,156,350	
Ending fund balance - O & M	\$ 1,401,230	\$ 1,427,683	\$ 26,453

This schedule is prepared to present revenues and expenses related to current operations only and includes capital purchases and transfers to reserves and as such does not present the results of operations on the basis of generally accepted accounting principles but is presented for supplemental information. See footnote for reconciliation of Budget to Actual report and Statement of Revenues, Expenses and Changes in Net Assets.



PFEFFER ■ HANNIFORD ■ PALKA
Certified Public Accountants

John M. Pfeffer, C.P.A.
Patrick M. Hanniford, C.P.A.
Kenneth J. Palka, C.P.A.

Members:
AICPA Private Practice Companies Section
MACPA

225 E. Grand River - Suite 104
Brighton, Michigan 48116-1575
(810) 229-5550
FAX (810) 229-5578

December 15, 2007

Honorable Board of Trustees
Marion-Howell-Oceola & Genoa SWATH
2911 Dorr Road
Brighton, Michigan 48116

Dear Honorable Board of Trustees:

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marion Howell Oceola Genoa Sewer and Water Authority as of and for the year ended September 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Marion Howell Oceola Genoa Sewer and Water Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified one deficiency in internal control that we consider to be a significant deficiency or material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

We consider the following to be a material weakness of the Authority:

- Journal entries were required during the audit to ensure the financial statement presentation was in conformity with generally accepted accounting principals. It should be noted the entries include those required for the full-accrual presentation of the financial statements.

We would like to thank Robin, Greg and staff that assisted us during the audit process for their cooperation.

If you should have any questions, comments or concerns please do not hesitate to call us.

This report is intended solely for the information and use of the Board of Trustees and management of Marion Howell Oceola and Genoa (MHOG) SWATH and is not intended to be and should not be used by anyone other than the specified parties.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants

K:\Township\2007\MHOG\MHOG07 C&R.doc